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Section 285.305



Philadelphia
Suburban
Corporation

Letter to Shareholders

762 W. Lancaster Avenue
Bryn Mawr, Pennsylvania
19010-3489

1.800.205.8314
610.645.1061 fax

December 1999

Dear Shareholder:

I am pleased to report increased revenues and net income for the third quarter ended September 30.

Revenue for the third quarter was up slightly to \$69.3 million in 1999 from \$69.0 million in 1998 and was adversely affected by unfavorable weather conditions. Net income for the quarter was up 4 percent to \$14.3 million in 1999 versus \$13.8 million for the same period in 1998 due to the continued cost containment and synergies attained by the March 1999 merger with Consumers Water Company (CWC).

Earnings per share for the third quarter was \$0.35 versus \$0.34 last year. Prior year earnings were positively affected by record water sales throughout the company. (PSC's reported earnings per share in the third quarter of 1998, before the restatement for the merger, was \$0.32.)

Although erratic weather (drought followed by a hurricane) adversely affected our Philadelphia Suburban Water Company (PSW) and Consumers New Jersey Water Company territories, favorable weather in the remainder of our Consumers' subsidiaries--one of the benefits of our new geographic diversity--and continued cost cutting enabled the company to finish the quarter with improved earnings.

Year-to-date revenues from operations increased 4 percent to \$194.1 million compared to the \$187.1 million from 1998. Income from operations for the nine months, exclusive of non-recurring items, was \$35.3 million versus the \$32.2 million from 1998, an increase of 10 percent. For the nine months, diluted income per common share before non-recurring items increased to \$.86 versus the \$.79 achieved last year during the same period. These amounts exclude \$8.6 million of estimated merger costs recorded in the first quarter of 1999 and the gain of \$3.9 million from the April 1998 sale of the Consumers New Hampshire operation (both net of tax amounts) as well as the New Hampshire operation's operating results (\$1.6 million in revenues and \$0.1 million in net income).

Cost savings already achieved from closing Consumers' corporate office and continuing operating synergies from the merger now exceed a current annualized rate of \$2.5 million or 6 percent of Consumers' annual operating expenses.

Due to the Consumers merger, PSC is the fastest-growing water company this year, increasing its customer base by 70 percent. With this acquisition, our future growth, from mainly municipal and small water systems, can now continue at both the PSW and Consumers operations. In fact, PSW recently signed an agreement of sale to purchase the 50,000-resident water system in Bucks County's largest municipality--Bensalem, and Consumers Illinois has signed an agreement to purchase the 5,000-resident Village of Bradley water system.

On October 29, our Pennsylvania subsidiaries (PSW and three Consumers operations) filed a joint rate request with the Pennsylvania Public Utility Commission (PUC) for a rate increase of \$28 million annually. This is our first rate request in 2 1/2 years--the longest period since 1980. This application is currently pending before the PUC and a final determination is anticipated sometime during the summer of 2000.

We are pleased to report that the PUC has again acknowledged PSW for having the lowest complaint rate and the lowest percentage of service quality related customer complaints among water providers in Pennsylvania.

Vivendi, the world's largest water company and long-term PSC shareholder, has purchased additional shares of PSC during the quarter and has expressed their desire to work closely with PSC on privatization projects with their subsidiary, U.S. Filter--the nation's largest water services company.

Our Dividend Reinvestment and Direct Stock Purchase Plan continues to grow. The Plan provides investors with a convenient and economical way to purchase shares of the Company's common stock by making optional cash investments throughout the year and reinvesting cash dividends at a five percent discount. For more information on the program and a prospectus, please call 1-800-205-8314.

Thank you for your continuing support.

Sincerely,

Nicholas DeBenedictis
Chairman & President

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(In thousands, except per share amounts)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	1999	1998	1999	1998
Operating revenues	\$ 69,337	\$ 68,991	\$ 194,091	\$ 188,664
Costs and expenses:				
Operations and maintenance	24,645	25,216	71,573	72,825
Depreciation and amortization	8,042	7,533	23,781	22,078
Taxes other than income taxes	5,591	5,871	16,803	16,941
Restructuring costs	-	-	3,787	-
	<u>38,278</u>	<u>38,620</u>	<u>115,944</u>	<u>111,844</u>
Operating income	31,059	30,371	78,147	76,820
Interest expense and other	7,714	7,455	23,581	23,127
Merger transaction costs	-	-	6,334	-
Gain on sale of New Hampshire operations	-	-	-	(6,680)
Income before income taxes	23,345	22,916	48,232	60,373
Provision for income taxes	9,013	9,129	21,551	24,157
Net income available to common stock, as reported	<u>\$ 14,332</u>	<u>\$ 13,787</u>	<u>\$ 26,681</u>	<u>\$ 36,216</u>
Income exclusive of merger transaction costs, restructuring costs and gain on sale of New Hampshire operations	<u>\$ 14,332</u>	<u>\$ 13,787</u>	<u>\$ 35,277</u>	<u>\$ 32,313</u>
Income per common share exclusive of merger transaction costs, restructuring costs and gain on sale of New Hampshire operations:				
Basic method	\$ 0.35	\$ 0.34	\$ 0.86	\$ 0.80
Diluted method	<u>\$ 0.35</u>	<u>\$ 0.34</u>	<u>\$ 0.86</u>	<u>\$ 0.79</u>
Net income per common share, as reported:				
Basic method	\$ 0.35	\$ 0.34	\$ 0.65	\$ 0.90
Diluted method	<u>\$ 0.35</u>	<u>\$ 0.34</u>	<u>\$ 0.65</u>	<u>\$ 0.89</u>
Average common shares outstanding during the period:				
Basic method	40,898	40,563	40,823	40,263
Diluted method	<u>41,333</u>	<u>41,077</u>	<u>41,281</u>	<u>40,741</u>

Note: Merger transaction and restructuring costs of \$8,596, net of income tax benefits of \$1,525, relate to the March 1999 merger with Consumers Water Company. The sale of the Consumers New Hampshire operations in April 1998 resulted in a gain of \$3,903, net of income tax expense of \$2,777.

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands of dollars)

	September 30, 1999	December 31, 1998
Net property, plant and equipment	\$1,062,752	\$1,016,194
Current assets	55,525	59,898
Deferred charges and other assets	83,724	80,641
	<u>\$1,202,001</u>	<u>\$1,156,733</u>
Stockholders' equity	\$ 364,540	\$ 353,088
Long-term debt, excluding current portion	411,514	413,309
Current liabilities	121,694	96,094
Deferred credits and other liabilities	304,253	294,242
	<u>\$1,202,001</u>	<u>\$1,156,733</u>



Philadelphia
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Letter to Shareholders

762 W. Lancaster Avenue
Bryn Mawr, Pennsylvania
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1.800.205.8314
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September 1999

Dear Shareholder:

I am pleased to report record revenues, net income and earnings from continuing operations for the quarter ended June 30, and an increase in the dividend. The improved revenues and earnings were due to increased water sales as a result of customer growth and favorable weather conditions in June, rate relief in Illinois and rate surcharges in Pennsylvania for infrastructure improvements and taxes.

For the eighth consecutive year, PSC's Board of Directors increased the annual dividend rate. *On September 1, the annual dividend rate increased 5.9% from \$.68 to \$.72 per share.* The \$.18 quarterly dividend payment is payable on September 1, to record shareholders on August 17.

Revenues from ongoing operations for the second quarter increased to \$66.2 million, a 7.5% increase over the \$61.6 million reported in 1998. Income from operations exclusive of non-recurring items for the quarter was \$12.0 million, up 12.1% from the \$10.7 million reported during the same period in 1998. Diluted income per common share from operations for the period increased 11.5% to \$.29, over the \$.26 earned during the same period in 1998. These income and earnings per share amounts exclude a net gain of \$3.9 million or \$.10 per share derived from the sale of the Consumers New Hampshire operation in April 1998. Reported net income and net income per common share for the second quarter of 1998 were \$14.6 million and \$.36 respectively.

PSC's growth-through-acquisition strategy continued during the second quarter as the Company completed several growth ventures including: bulk water sales agreements to Pennsylvania municipalities; the purchase of a water system in East Marlborough, Pennsylvania; two operating and management contracts in Maine and New Jersey and new service to a new power generation plant in Danville, Illinois and to apartment and housing complexes in Canton, Ohio and Honeybrook, Pennsylvania.

The recent drought conditions in some areas where PSC subsidiaries serve has resulted in some reductions in water usage by residential customers; however, usage is still equal to, or above, normal summer levels. Despite the hot, dry summer weather to date, the 10-billion gallon reservoir system of PSC's largest subsidiary--PSW--remained at comfortable levels as of August 15. During the months of January and February, heavy rainfall helped to recharge PSC's reservoir systems, making it possible for PSC's subsidiaries to continue to serve their customers despite the record drought.

Our Dividend Reinvestment and Direct Stock Purchase Plan continues to grow. The Plan provides investors with a convenient and economical way to purchase shares of the Company's common stock by making optional cash investments throughout the year and reinvesting cash dividends at a 5% discount. For more information on the program please call 1-800-205-8314.

Sincerely,

Nicholas DeBenedictis
Chairman & President

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(In thousands, except per share amounts)

	Quarter Ended June 30,		Six Months Ended June 30,	
	1999	1998	1999	1998
Operating revenues	\$ 66,157	\$ 61,740	\$ 124,754	\$ 119,673
Costs and expenses:				
Operations and maintenance	24,203	24,005	46,928	47,609
Depreciation and amortization	7,900	7,267	15,739	14,545
Taxes other than income taxes	5,624	5,220	11,212	11,070
Restructuring costs	-	-	3,787	-
	<u>37,727</u>	<u>36,492</u>	<u>77,666</u>	<u>73,224</u>
Operating income	28,430	25,248	47,088	46,449
Interest expense and other	8,114	7,553	15,867	15,672
Merger transaction costs	-	-	6,334	-
Gain on sale of New Hampshire operations	-	(6,680)	-	(6,680)
Income before income taxes	20,316	24,375	24,887	37,457
Provision for income taxes	8,283	9,798	12,538	15,028
Net income available to common stock, as reported	<u>\$ 12,033</u>	<u>\$ 14,577</u>	<u>\$ 12,349</u>	<u>\$ 22,429</u>
Income exclusive of merger transaction costs, restructuring costs and gain on sale of New Hampshire operations	<u>\$ 12,033</u>	<u>\$ 10,674</u>	<u>\$ 20,945</u>	<u>\$ 18,526</u>
Income per common share exclusive of merger transaction costs, restructuring costs and gain on sale of New Hampshire operations:				
Basic method	\$ 0.29	\$ 0.26	\$ 0.51	\$ 0.46
Diluted method	<u>\$ 0.29</u>	<u>\$ 0.26</u>	<u>\$ 0.51</u>	<u>\$ 0.45</u>
Net income per common share, as reported:				
Basic method	\$ 0.29	\$ 0.36	\$ 0.30	\$ 0.56
Diluted method	<u>\$ 0.29</u>	<u>\$ 0.36</u>	<u>\$ 0.30</u>	<u>\$ 0.55</u>
Average common shares outstanding during the period:				
Basic method	40,800	40,423	40,784	40,110
Diluted method	<u>41,251</u>	<u>40,842</u>	<u>41,266</u>	<u>40,564</u>

Note: Merger transaction and restructuring costs of \$8,596, net of income tax benefits of \$1,525, relate to the March 1999 merger with Consumers Water Company. The sale of the Consumers New Hampshire operations in April 1998 resulted in a gain of \$3,903, net of income tax expense of \$2,777.

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands of dollars)

	June 30,	December 31,
	1999	1998
Net property, plant and equipment	\$1,046,390	\$1,016,194
Current assets	59,526	59,898
Deferred charges and other assets	80,223	80,641
	<u>\$1,186,139</u>	<u>\$1,156,733</u>
Stockholders' equity	\$ 354,864	\$ 353,088
Long-term debt, excluding current portion	388,742	413,309
Current liabilities	142,670	96,094
Deferred credits and other liabilities	299,863	294,242
	<u>\$1,186,139</u>	<u>\$1,156,733</u>



Philadelphia
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Letter to Shareholders

762 W. Lancaster Avenue
Bryn Mawr, Pennsylvania
19010-3489

1.800.205.8314
610.645.1061 fax

June 1999

Dear Shareholder:

I am pleased to report record revenues for the quarter ended March 31, 1999. Increased water sales complemented by cost containment at Philadelphia Suburban Water Company (PSW) and synergies already accruing from the March 10, merger with Consumers Water Company (CWC) all contributed to a successful quarter.

First quarter revenues totaled \$58.6 million vs. the \$57.9 million reported in 1998. If 1998 revenues exclude the \$1.5 million from the Consumers New Hampshire subsidiary, which was sold in April 1998, comparable revenues were up 4%.

Exclusive of merger transaction costs, diluted net income per common share for the quarter was \$.22 per share, up 16% from the \$.19 earned in the same period in 1998. Net income for the quarter increased to \$8.9 million from the \$7.9 million reported during the same period in 1998. Adjusted for net income derived from the Consumers New Hampshire operation in 1998 (\$.13 million), net income increased 16%.

Transaction costs related to the merger were \$8.6 million or \$.21 on a per share basis net of taxes, including severance costs, office closing costs and the payment of legal, accounting and investment banking fees, resulting in net income for the quarter of \$316,000. PSW continues its successful cost containment program and despite a doubling of main breaks early in the winter, operations and maintenance expenses decreased to 39% of total revenue. Immediate cost cutting efforts, including the closing of the Consumers' corporate office, are providing a \$1.5 million annualized savings run rate. More synergies are expected as the two organizations continue to consolidate their operations.

PSC is expanding its successful growth-through-acquisition program, begun seven years ago. The PSC merger with Consumers Water Company, increased PSC's customer base by more than 70%. The merger with CWC provides the new company with increased potential to grow earnings through an aggressive acquisition program.

During the first quarter of 1999, the following growth ventures were achieved:

- ◆ CWC Pennsylvania purchased the New Wilmington Municipal Authority and the Wilmington Borough water systems in Mercer County. The new service territory covers 33 square miles.
- ◆ PSW expanded its territory in Cumru Township, Berks County by 4.2 square miles and will now serve a new 150-home development, the Reading Rehabilitation Hospital and a nursing home.
- ◆ PSW purchased a wastewater system in East Bradford, Chester County.
- ◆ PSW reached an agreement to purchase a large spring-water supply that will serve a new 240,000 sq. ft. industrial park and provide additional capacity to serve rapidly-growing Montgomery and Bucks counties.
- ◆ CWC New Jersey expanded its Woolwich Township franchise where 4,500 homes are planned.

PSC's management continues to focus on shareholder value. Our acquisition strategy has allowed your Company to become the second largest investor-owned water company in the nation. The ability to efficiently manage new properties and take advantage of economies of scale has increased our profitability.

Thanks to our loyal investors, our new and improved Dividend Reinvestment and Direct Stock Purchase Plans have been positively received. PSC provides our shareholders with a convenient and economical way to purchase shares of the Company's common stock by allowing optional cash investments throughout the year and reinvesting cash dividends at a five percent discount. For more information on the program prospectus please call 1-800-205-8314.

We appreciate your investment in PSC.

Sincerely,

Nicholas DeBenedictis
Chairman & President

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(In thousands, except per share amounts)

	Quarter Ended March 31,	
	<u>1999</u>	<u>1998</u>
Operating revenues	\$ 58,597	\$ 57,933
Costs and expenses:		
Operations and maintenance	22,725	23,604
Depreciation and amortization	7,839	7,278
Taxes other than income	5,588	5,850
Restructuring costs	3,787	-
	<u>39,939</u>	<u>36,732</u>
Operating income	18,658	21,201
Interest expense and other	7,753	8,119
Merger transaction costs	6,334	-
Income before income taxes	4,571	13,082
Provision for income taxes	4,255	5,230
Net income available to common stock, as reported	<u>\$ 316</u>	<u>\$ 7,852</u>
Income exclusive of merger transaction and restructuring costs	<u>\$ 8,912</u>	<u>\$ 7,852</u>
Income per common share exclusive of merger transaction and restructuring costs:		
Basic method	<u>\$ 0.22</u>	<u>\$ 0.20</u>
Diluted method	<u>\$ 0.22</u>	<u>\$ 0.19</u>
Net income per common share, as reported:		
Basic method	<u>\$ 0.01</u>	<u>\$ 0.20</u>
Diluted method	<u>\$ 0.01</u>	<u>\$ 0.19</u>
Average common shares outstanding during the period:		
Basic method	<u>40,771</u>	<u>39,793</u>
Diluted method	<u>41,285</u>	<u>40,279</u>

Note: Merger transaction and restructuring costs of \$8,596, net of income tax benefits of \$1,525, relate to the March 1999 merger with Consumers Water Company.

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands of dollars)

	March 31, <u>1999</u>	December 31, <u>1998</u>
Net property, plant and equipment	\$1,026,324	\$1,016,194
Current assets	53,035	59,898
Deferred charges and other assets	77,917	80,641
	<u>\$1,157,276</u>	<u>\$1,156,733</u>
Stockholders' equity	\$ 348,448	\$ 353,088
Long-term debt, excluding current portion	401,453	413,309
Current liabilities	113,912	98,021
Deferred credits and other liabilities	293,463	292,315
	<u>\$1,157,276</u>	<u>\$1,156,733</u>



Philadelphia
Suburban
Corporation

Letter to Shareholders

762 W. Lancaster Avenue
Bryn Mawr, Pennsylvania
19010-3489

1.800.711.4PSW
610.645.1061 fax

March 1999

Dear Shareholder:

I am pleased to announce *record* revenues, net income and earnings per share for the fourth quarter and year ended December 31, 1998. These positive results were due to profits from water system acquisitions, increased sales from favorable summer weather, an October 1997 rate increase and continued cost containment.

For the year, diluted net income per common share was \$1.03, an increase of 17% over 1997's net income of \$.88. Net income was \$28.6 million, up 24.5% over 1997's income of \$23.0 million on 6% more shares outstanding; revenues increased to \$151.0 million, an increase of 10.9% over 1997's revenues of \$136.2 million.

In keeping with its commitment to shareholders, PSC's Board of Directors declared the 216th consecutive quarterly dividend payment of \$.17 per share to shareholders of record on February 10, 1999 and payable on March 1, 1999.

Net income for the 1998 fourth quarter was \$6.5 million, up \$1.1 million from the \$5.4 million reported during the same period last year. For the quarter, basic and diluted earnings per common share were \$.23 vs. \$.21 earned in 1997. For the quarter, revenues increased to \$37.7 million vs. \$35.1 million reported in 1997.

1998 was another record year of growth for PSC. We finished the year with eight growth ventures and 4% customer growth--double the industry average. As we begin 1999 we have already been granted the right to serve additional territory in Cumru Township, Berks County and to purchase a waste water system in East Bradford Township, Chester County.

We have also announced our largest acquisition to date, a merger with Consumers Water Company. Consumers, which serves 223,000 customers, with water and wastewater utilities in Ohio, Illinois, Pennsylvania, New Jersey and Maine, will provide PSC with growth and expansion opportunities in both our local region and in new territories. Under the merger agreement, Consumers will become a wholly-owned subsidiary, making PSC one of the *largest* investor-owned water companies in the nation. The merger is taking place at a very dynamic time in the water utility industry when there is significant opportunity for consolidation. While the merger represents an expansion of PSC's regional growth-through-acquisition strategy, we plan to continue to expand the Company in our local region while implementing the same regional growth and cost containment strategies in Consumers' markets.

I am pleased to announce that Morrison Coulter, a 37-year veteran, will become President of the Philadelphia Suburban Water subsidiary and will be responsible for all operations. Robert Liptak, a 22-year veteran of Consumers will become President of our new Consumers subsidiary effective at closing. We are fortunate to have such experienced professionals to lead our operating subsidiaries.

Continuing with its high commitment to shareholders, PSC accomplished a *38% total shareholder return* in 1998; the best in the industry. We raised the dividend in 1998, 5% for the fifth consecutive year and decreased our dividend payout ratio to 64%, retaining more earnings to invest in our business. We also contained costs to achieve an expense/revenue ratio of 39%, one of the lowest in the industry.

PSW continues to have one of the lowest rate structures of all investor-owned water companies in Pennsylvania and was ranked "...the most effective major water company in handling consumer complaints" by the PA PUC. Management is proud of this accomplishment, and through our commitment to providing outstanding service to both our customers and our shareholders while holding down costs, we are confident PSC will remain one of the premier water suppliers in the United States.

Our convenient Dividend Reinvestment and Direct Stock Purchase Plan, now serviced by EquiServe--the nation's largest transfer agent--continues to grow and is being extended to our 8,000 new Consumers shareholders. The Plan provides investors with a convenient and economical way to purchase shares of the Company's common stock by making optional cash investments throughout the year and reinvesting cash dividends at a 5% discount. For more information on the program, please call 1-800-205-8314. Thank you for your continued support.

Sincerely,

Nicholas DeBenedictis

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

	(Unaudited)			
	Quarter Ended		Year Ended	
	December 31,		December 31,	
	1998	1997	1998	1997
Operating revenues	\$37,704	\$35,081	\$150,977	\$136,171
Costs and expenses:				
Operations and maintenance	15,772	15,070	58,174	55,899
Depreciation and amortization	4,170	3,875	16,089	14,580
Taxes other than income taxes	2,270	2,486	10,035	8,893
	<u>22,212</u>	<u>21,431</u>	<u>84,298</u>	<u>79,372</u>
Operating income	15,492	13,650	66,679	56,799
Interest expense & preferred stock				
dividend of subsidiary	4,787	4,558	18,991	18,260
Allowance for funds used during construction	(159)	(188)	(736)	(522)
Income before income taxes	10,864	9,280	48,424	39,061
Provision for income taxes	4,354	3,799	19,605	15,873
Net income	6,510	5,481	28,819	23,188
Dividends on preferred stock	49	49	195	195
Net income available to common stock	<u>\$ 6,461</u>	<u>\$ 5,432</u>	<u>\$ 28,624</u>	<u>\$ 22,993</u>
Basic net income per common share	<u>\$ 0.23</u>	<u>\$ 0.21</u>	<u>\$ 1.04</u>	<u>\$ 0.89</u>
Diluted net income per common share	<u>\$ 0.23</u>	<u>\$ 0.21</u>	<u>\$ 1.03</u>	<u>\$ 0.88</u>
Average common shares outstanding				
during the period:				
Basic	<u>27,687</u>	<u>26,153</u>	<u>27,408</u>	<u>25,908</u>
Diluted	<u>28,187</u>	<u>26,545</u>	<u>27,876</u>	<u>26,273</u>

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands of dollars)

	December 31,	
	1998	1997
Net property, plant and equipment	\$609,808	\$534,483
Current assets	30,956	27,063
Deferred charges and other assets	60,686	56,926
	<u>\$701,450</u>	<u>\$618,472</u>
Stockholders' equity	\$234,759	\$194,745
Long-term debt, excluding current portion	261,826	232,471
Current liabilities	44,856	44,697
Deferred credits and other liabilities	160,009	146,559
	<u>\$701,450</u>	<u>\$618,472</u>